



OXFORD ANALYTICA

ARGENTINA

MONETARY TRANSPARENCY

Country Report 2005

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ARGENTINA



COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	●●●	●●●	●●●	●●●
Open decision process	●●●	●●●	●●●	●●
Availability of information	●●●●●	●●●●●	●●●●●	●●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●
Score	3.75	3.75	3.50	3.00

OUTLOOK & COMMENTARY

The Central Bank of Argentina (BCRA) appears to have set aside the goal set in late 2002 of establishing a fully operational inflation-targeting regime. Although an official document to explain current changes in monetary policy has yet to be published, central bank authorities have indicated that monetary policy is now going through a transition period based on intermediate quantitative targets to adopt a reference interest rate system. Concerns about insufficient clarity regarding the objectives of monetary policy could begin to undermine the credibility of the central bank. Doubts over BCRA autonomy are likely to persist in the near future, especially if significant purchases of US dollars to prevent the appreciation of the peso continue.

Data reliability and comprehensiveness are key characteristics of the central bank communications strategy, which are likely to consolidate. The comprehensive auditing process of financial institutions undertaken following the 2001-02 crisis has enabled better understanding of the strengths and vulnerabilities of the sector overall, and will help the gradual recovery of the financial system.

EXECUTIVE SUMMARY

3.75 Compliance in progress

The Central Bank of Argentina (BCRA) is a self-governing body of the national government, and its objectives and responsibilities are clearly established in its charter and the Financial Institutions Law. The central bank monitors the performance of the financial market; acts as the financial agent for the state; and acts as the depository and agent for the country in respect of its obligations to international monetary and banking entities. According to a recent statement by the central bank's president, monetary policy is now going through a transition period based on intermediate quantitative targets -- founded on monetary aggregates -- to a reference interest rate system. Authorities have indicated that they are reviewing whether an inflation-targeting framework remains appropriate for the country from an institutional perspective, and this goal, in practice, has been gradually abandoned in the past year.

BCRA autonomy is established in its charter. However, concerns have been raised over the independence of the current monetary policy goals -- aimed at preventing the appreciation of the Argentine peso against the US dollar -- which are perceived as being imposed by the government's economic strategy.

The BCRA is under the management of a Board of Directors, composed of a president, a vice president and eight directors, all of whom are appointed by the executive president in agreement with the Senate. The composition, structure and functions of this board are clearly specified in the central bank's charter. Board members hold weekly meetings. Neither an advance meeting schedule, nor records of the meetings are publicly available. The president of the BCRA submits a report to Congress at least once a year. The central bank's financial statements are publicly available and are audited both internally and externally.

The BCRA has an efficient and reliable communications strategy, with information publicly available both in Spanish and in English. A *Daily Monetary Report* provides timely information on the monetary base, international reserves, inflationary trends, and lending activities. The *Inflation Report* is regarded as a relevant instrument to fulfil monetary policy requirements. The *Annual Monetary Programme* is available in December each year. In addition, the BCRA publishes a monthly *Monetary Report* with information on monetary policy developments and detailed figures regarding its financial position. The *Financial Stability Bulletin* examines the functioning of the financial system. Information on emergency financial support, international reserves, and liquidity is regularly provided by the central bank. The central bank also publishes annual balance sheets and income statements.

Through the operations of its Superintendence of Financial Institutions and Exchange Bureaus, the central bank is tasked with promoting the stability of the financial system. Information on financial institutions, available through the monthly *Financial Institutions Report*, has improved in the past year, and includes assets and liabilities, accumulated income, memorandum accounts, and audit observations.

Argentina's overall score remains unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●● Enacted

The objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

The objectives of the Central Bank of Argentina (BCRA) are set out in its charter, Law 24.144 of 1992 (as amended). Article 3 charges it with preserving the value of legal tender. The BCRA is empowered to regulate the amount of circulating money and the level of lending within the economic system and to issue monetary, financial and exchange rules according to the legislation in force.¹

The duties of the BCRA are also clearly established in its charter. The central bank has to monitor the performance of the financial market; act as a financial agent for the state; and act as depository and agent for the country in respect of its obligations to international monetary and banking entities. The BCRA stores and manages Argentina's gold reserves, foreign exchange and other external assets; it fosters the development of capital markets; and implements the exchange rate policy. Prior to the economic crisis of 2001-02, the central bank acted in a similar way to a currency board, leaving monetary policy essentially passive. The 1991 Convertibility Plan had reformed the exchange rate system, and the central bank's charter. Under the exchange rate reforms, the peso was pegged to the US dollar, the stock of monetary liabilities was tied to the stock of foreign exchange held by the central bank, and full convertibility of the peso for both current and capital transactions was established.

In January 2002, however, after ten years of the convertibility arrangements, the central bank regained an active role in monetary policymaking. The BCRA is involved in exchange rate policy as a market maker in determining rules and restrictions. Although predictability and transparency were impaired in 2002 (mainly by the political circumstances), the disclosure of information on monetary policy has been consolidating since then. Improving transparency, communication and predictability are key goals of the central bank's operations.

The central bank's charter was amended in January 2002, and now imposes on the BCRA the obligation of disclosing a monetary programme before the start of each fiscal year, which should include information on inflation targets and forecasts of total money supply variations. This last objective was hampered both in 2002 and 2003 by the important amount of provincial bonds in circulation, which undermined the BCRA's control over monetary liquidity. In September 2003, the BCRA charter was modified to reinforce its exclusive powers to issue legal tender. As a consequence, provincial governments cannot issue bonds to act as quasi-currencies anymore.² Monetary reunification is now completed, and quasi-currencies were converted into pesos allowing the central bank to prepare more accurate forecasts on the country's money supply variations.

Operational autonomy

The central bank charter establishes that it is not subject to any order or instruction given by the country's president as regards the preparation and implementation of monetary and financial policy. Nevertheless, many people in the country believe that the central bank's autonomy has remained damaged since 2001, when the president of the BCRA was forced out and the Ministry of Economy succeeded in nominating his replacement.³

In December 2002, Alfonso Prat-Gay was appointed as BCRA president. As an independent expert, he had a strong commitment to reinforce the BCRA's autonomy and strengthen its capacity to formulate monetary policy. However, in 2004, President Nestor Kirchner decided not to reappoint Prat-Gay, and nominated a former secretary of international economic relations -- Martin Redrado -- who received Senate approval in October last year. Since the new BCRA president took office, a comprehensive restructuring of the central bank's executive level has taken place, including the replacement of more than ten managers.

Given the fact that Prat-Gay was widely acknowledged for his handling of monetary policy, the gradual introduction of inflation targeting, and his efforts to stabilise the banking sector, the decision to replace him and four other BCRA directors with officials closer to the government raised concern over the central bank's operational autonomy in practice.⁴ Prat-Gay's replacement was perceived as a strong signal to bring BCRA's policies into line with the government's economic strategy. In the past year, there has been unease about the independence of the current monetary policy goals -- aimed at preventing the appreciation of the Argentine peso against the US dollar -- which are perceived as imposed by the government's economic strategy.⁵

Institutional relationship between monetary and fiscal operations

Lending to government

During the convertibility years, the BCRA's charter was rewritten tightly to prevent it from financing the non-financial private sector and to limit its scope for providing credit to either the public sector or state-owned banks.

As a general principle, the central bank must not extend loans to the national government, banks, provinces and municipalities. However, following the amendments to its charter in early 2002 and September 2003, there are now exceptions to this principle. The BCRA is now empowered to grant temporary advances to the national government as long as they do not exceed 12% of the monetary base -- made up of money in circulation plus the financial institutions' demand deposits with the central bank held in current or special accounts. In addition, it is allowed to grant advances as long as they do not exceed 10% of the funds obtained by the government in the last 12 months. At no time may the amount of temporary advances granted, excluding those that are exclusively allocated for payment of obligations to multilateral credit agencies, exceed 12% of the monetary base. These advances will have to be reimbursed within twelve months. If they are not repaid, the BCRA is barred from using this facility until reimbursement occurs. Information on the BCRA's loans to the government is publicly available.

Central bank powers to lend to the national government, mainly to meet international organisations' commitments, have been conducted within the legal framework in the past year.

Central bank involvement in the rest of the economy

The central bank's involvement in the rest of the economy is minimal. The BCRA is involved only with the banking system -- the Banking Supervisor operates under the BCRA -- but not with the rest of the private sector. Most provincial banks have been either privatised or reduced their size and scope during the 1990s. The *Banco de la Provincia de Buenos Aires* (Bapro), a major non-privatised provincial bank, does not recognise the central bank's authority, claiming that Bapro predates the BCRA and is not subject to its norms. In line with IMF's recommendations, the government is committed to strategically review the future of both Bapro and *Banco Nacion* (BN), the two major non-privatised public banks, with the objective of strengthening their roles and functions.⁶ The auditing firm for Bapro -- a partnership integrated by Booz Allen and Strat -- delivered its report during 2005, and this is currently being analysed by the BCRA board of directors.⁷ The bidding process to select a firm to undertake the *Strengthening and Efficiency Plan for Banco Nacion* has been cancelled or suspended several times in the past two years, and is likely to be awarded before the end of this year. The winner will have 180 days to review BN's

operations, including its business profile, human resources capabilities, and assess its insurance, capital markets and pension areas.

The fiscal surplus of the national government -- deposited in the BN accounts -- has contributed to improvement in BN's profitability from a 750 million pesos deficit in 2003 to around 200 million pesos of surplus. The increased reserves of BN could be used by the government in case of financial emergency or serious liquidity problems.

In June 2003, the government introduced a system to control inflows of speculative capital, which is regulated by the BCRA. The measure is designed to curb sharp short-term increases in the quantity of dollars in the market, which have contributed to exchange rate volatility. Decree 285/03 requires that foreign portfolio investments must be registered with the BCRA, and must remain in the country for a minimum of 180 days. Foreign trade operations, foreign direct investment, and capital repatriated by residents are exempt. The BCRA has been charged with establishing and applying sanctions in cases of non-compliance. In June this year, Decree 616/05 has further strengthened control of speculative capitals, with the aim of limiting speculative capital inflows and averting a further strengthening of the exchange rate.⁸ The measure, which will not apply to foreign direct investment, trade finance or investment in primary bond issues, will require 30% of foreign short-term inflows to be held in non-interest-bearing deposits for twelve months. This requirement acts as a tax, deterring short-term capital inflows. Additionally, in the past year, the BCRA has implemented a system to increase reporting and registration of foreign investment -- both of companies and individuals -- in the country. Information has to be updated every six months, including movements of capital, revenues and expenditures. Even though commentators have welcomed the controls, they have also admitted their limited efficiency.⁹

Central bank profit allocation

BCRA's profits that have not been used to increase its capital must be allocated to the general and special reserve funds, for up to 50% of the BCRA's capital. Once this limit is reached, the profit that has not been capitalised or allocated to reserve funds can be freely transferred to the National Government Account. Losses borne by the central bank during a fiscal year have to be deducted from the reserves made in previous years and, if this is not possible, they must be deducted from the BCRA capital. In such cases, the Board of Directors may assign any profits that arise from subsequent fiscal years to restore the capital and reserve levels recorded prior to the original loss.

Detailed information on the Financial System International Reserves and Central Bank Financial Liabilities are publicly disclosed on a daily basis on the central bank's website.¹⁰

Agency roles performed by the central bank on behalf of the government

Under the terms of its charter, the BCRA charges the National Government Account for the amount of the domestic and foreign debt servicing that it carries out, together with any expenses incurred. The central bank assists the Ministry of Economy in controlling the procedure of placing official borrowings and provides the ministry with detailed information about its performance as the fiscal agent of the state.

There is no legal provision establishing the duties of the BCRA as an advisor to the national government in its relations with international organisations. There is, however, an informal committee of the national government that discusses relations with international organisations, and the president of the BCRA is usually part of this committee.

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Enacted

The framework, instruments and targets of monetary policy

Framework and monetary targets

The BCRA is obliged to disclose its monetary programme for each fiscal year. The BCRA is currently going through a transition period from an exchange rate anchor to a monetary anchor.¹¹ Although the official monetary policy goal during Prat-Gay's central bank presidency was to implement an inflation-targeting mechanism, this goal seems to have been gradually abandoned in the past year. Argentine authorities have indicated that they are reviewing whether an inflation-targeting framework is appropriate for the country, from an institutional point of view. They have stressed, however, that inflation control would be the prime objective of the central bank whether or not formal inflation targeting is adopted.¹² In addition, according to a recent statement by the BCRA president, monetary policy is now going through a transition period based on intermediate quantitative targets -- founded on monetary aggregates -- to a reference interest rate system. However, the BCRA remains committed to establishing an inflation target at the beginning of each fiscal year, in order to foster price stability.¹³ Ultimately, insufficient clarity as to the objectives of monetary policy could damage the credibility of the central bank in the near term.

During the past year, the central bank's principal goal has focused on making significant purchases of US dollars to prevent the appreciation of the Argentine peso, maintaining the exchange rate at around three pesos per US dollar. The system of 'managed floatation' has allowed the BCRA to keep the exchange rate in line with the government's broad economic policy.¹⁴ The *2005 Monetary Programme* foresaw the accumulation of foreign reserves in order to cancel debt instalments with international organisations and to prevent financial vulnerability. According to some analysts, a de facto semi-fixed exchange rate policy -- within a range suggested by the government -- conflicts with an inflation-targeting system.¹⁵ Efforts by BCRA officials have been aimed at diminishing arguments against the current exchange rate policy as a source of inflation, owing to the expansion of the monetary base (money supply increased more than 24% in the past year).

The IMF recently warned that using monetary policy to pursue exchange rate stability may bear inflationary risks, and recommended that the authorities clarify their commitment to price stability as the prime objective of monetary policy. Furthermore, it has called for a greater degree of nominal exchange rate flexibility, while noting that the government's foreign exchange market intervention policy should be transparent.¹⁶ Meanwhile, the goal of BCRA officials, who are in the process of building expertise, is to achieve internal consistency. Different measures are being taken internally to achieve this, including the training of central bank employees. As of April 2004, the BCRA had a headcount of 2,208 people (including the Superintendence of Financial Institutions and Exchange Bureaus), of whom 55 % are university graduates -- a much higher rate than other public sector dependencies.

The *Annual Monetary Programmes* are posted on the BCRA's website as soon as they are approved, and are submitted with detailed assessment of the central bank's performance in the previous period and to what extent targets were met. A monetary programme monitoring system has been established, with periodic reports being published on the BCRA website. The targets of the annual Monetary Programme are followed and updated through quarterly reports. Monetary programmes are now submitted with detailed assessments and comparative tables on the macroeconomic scenario, inflation forecasts, and monetary projections.

Key objectives of the *2005 Monetary Programme* -- presented by the BCRA before the Senate on 1 December 2004 -- included the strengthening of the financial system and the re-establishment of long-term credit. By September 2005, the BCRA's monetary programme recorded nine consecutive quarters of compliance. However, the central bank has recognised that the 5-8% inflation target for 2005 will not be achieved, with market expectations predicting inflation to be 12% for 2005. At the time of writing, the *2006 Monetary Programme* remained unpublished, and thus the 2006 goals -- including the inflation target -- were undisclosed.

Monetary instruments

The BCRA believes that the usual mechanisms of transmitting monetary policy are still operating in a limited manner. At present, the central bank's policy emphasises the strengthening of its international reserves, which have grown in the past year from 19 to nearly 27 billion US dollars. The BCRA president, in consultation with his advisers and technical staff, and following the framework established in the *Monetary Programme*, takes decisions on the exchange rate targets. Even though this is the BCRA official policy, some analysts maintain that the Ministry of Economy has strong influence in these decisions.¹⁷

Until the transition period is completed, the monetary base -- which has been growing since 2004 -- will continue to be the monetary anchor, within the framework of a floating exchange rate. In future, an administered flotation could possibly be implemented, which would be more coherent than the current policy of intervening in the market to increase reserves and maintain the exchange rate within the government's unofficial target.¹⁸

Transparency practices in central bank operations play an important role, as annual inflation targets are an important part of the monetary policy framework. The disclosure of goals and indicators is widely perceived as transparent and efficient, and the BCRA website provides high quality and reliable information.

The monetary policy-making body

Monetary board

The BCRA is under the charge of a Board of Directors composed of a president, a vice president and eight directors, all of whom are appointed by the national president in agreement with the Senate. The composition, structure and functions of this board are clearly specified in the central bank's charter.¹⁹ The minister of economy, or a designated deputy, is permitted to attend and speak at board meetings, although he/she has no voting rights.

The new BCRA board received Senate approval in October 2004.²⁰ Its lack of monetary policy specialists has been a source of criticism. In addition, most of the new members are linked to the government, and as such they appear to be more dependent on the executive and the Ministry of Economy than would be desirable. Preserving the value of the currency and the re-establishment of long-term credit are the key priorities of the authorities.

In August 2005, the executive, following recommendations from Congress, removed BCRA Director Ricardo Branda from the board. The move was fostered by a judicial ruling accusing nine former government officials and senators -- including Branda -- of giving and receiving bribes in connection with congressional approval of the labour reform bill in 2000. Luis Corsiglia, whose nomination has been approved by Congress, will take over Branda's position on the Board of Directors until the end of 2007.

In June 2003, the 'Inflation Targeting Committee' (ITC) was created. Rather than being a policy committee, the ITC was envisaged as an implementation commission for the inflation-targeting framework. The main tasks of this committee are to establish adequate inflation targets, and improve the methods by which monetary policy is made

publicly available. However, the work of the ITC has been reduced in the past year, owing to the gradual abandonment of the full establishment of an inflation-targeting system.

Advance meeting schedule

The president of the BCRA is obliged to call for board meetings at least once every 15 days. Board members typically hold weekly meetings, usually on Thursdays. Neither an advance-meeting schedule, nor records of the meetings -- which include the votes of board members -- are publicly available. Moreover, there is no established practice of issuing press releases on decisions taken by the board, although these can be obtained on request through the central bank's offices. Important decisions are reported in the press.

Public statements on monetary policy

The central bank prepares its own macroeconomic forecasts -- placing particular emphasis on monetary projections -- and sometimes seeks consensus with the forecasts prepared by the Ministry of Economy. Coordination between these two institutions on the most important economic indicators has increased in the past years. However, the difference between the central bank's inflation target of 5-8% and the Ministry of Economy's forecast of 7-10.5% for 2005 has undermined the credibility of the target and, hence, the reputation of the monetary authority.

Developments in main macroeconomic indicators, including series for prices, output and employment, the external sector, public finance as well as monetary and financial variables are updated on a monthly basis and posted on the central bank's website.

Periodic publications

The BCRA has an efficient and reliable communications strategy, with information publicly available both in Spanish and in English.²¹ The central bank discloses its *Annual Monetary Programme* report in December each year, which is then monitored through the *Inflation Report*. In addition, the BCRA publishes a monthly *Monetary Report* with information on monetary policy developments and detailed figures regarding its financial position. This report outlines the core objectives of the central bank's monetary policy. Analyses available in the *Monetary Report* provide details on interest rates, monetary aggregates and liquidity, loans, financial indicators, and foreign exchange and capital markets.²² Additionally, the *Daily Monetary Report* provides timely information on the monetary base, international reserves, inflationary trends, and lending activities.

The *Inflation Report* -- regarded as a relevant instrument to fulfil monetary policy requirements -- shows the aggregate supply and demand analysis performed on a daily basis by the central bank in order to anticipate inflation trends. The main challenge to the central bank is distinguishing between permanent and transitory changes to inflation, so as to carry out monetary policy accordingly. The Spanish version of the report is published quarterly on the BCRA website in the third week of January, April, July and October, and is followed by a summary in English. The full-length report is published in English a month later.

Public hearings

There is a legal requirement for the central bank to report to parliament on its operations and policies every three months. In addition, the BCRA's press office holds regular meetings with members of the media to keep the public informed about new policies. The BCRA website also contains information regarding the outcome of the 2005 sovereign debt restructuring programme.

Regulations on data reporting by financial institutions to the central bank

Through the operations of its Superintendence of Financial Institutions and Exchange Bureaus, the central bank is tasked with promoting the stability of the financial system. It also has responsibility for inspecting financial institutions. After the ‘pesoisation’ of dollar-denominated debts in early 2002, the BCRA stopped receiving information from financial institutions, but this resumed in late 2003. The monthly *Financial Institutions Report* comprises a useful information source. The report includes information on financial system profitability, the net worth of private banks, and foreign liabilities. Information on non-performing portfolio and banks’s liquid asset level is also publicly available. The comprehensive auditing process of financial institutions undertaken following the 2001-2002 crisis has enabled a better understanding of the strengths and vulnerabilities of the financial sector overall.

Information publicly available on financial institutions includes their assets and liabilities, accumulated income, memorandum accounts, and audit observations. Reliability of the information available has improved in the past year. The situation of the financial system portfolio continues to improve, and the BCRA has been establishing incentives to encourage the ‘pesoisation’ of the banking system. Even though exposure has decreased, judicial claims filled against financial entities after the abandonment of convertibility still represent a source of concern, and legal security has not been strengthened following October’s 2004 Supreme Court decision that the ‘pesoisation’ of dollar deposits in 2002 was constitutional.²³ Doubts on the final outcome of legal proceedings remain unsolved, owing to the Supreme Court’s delay in issuing a conclusive ruling in either direction.²⁴

Banks have reduced their exposure to public sector risk. Nevertheless, this reduction has been partially offset by increased holdings of BCRA Letters and Notes (LEBACs and NOBACs), issued in order to absorb increases in the monetary base. Their stock of LEBACs increased by 25% in the first five months of 2005, reflecting efforts to sterilise the expansion of the money supply resulting from central bank interventions in the foreign exchange market to prevent further appreciation of the peso. According to the IMF, the banking sector has returned to overall profitability, but still remains vulnerable.²⁵

After the 2001-2002 financial crisis, the government’s approach has followed a gradual recovery of the financial system, avoiding comprehensive reforms. Opinions diverge on whether a sustainable recovery is feasible without an in-depth banking reform. Banking reform to date has been mainly market driven, with some banks themselves reforming by reducing their branch networks, or through mergers and acquisitions. However, rigidities in the legal framework have hitherto complicated this process, and the lack of exit mechanisms for banks remains a problem. In order to avoid posing systemic risks, public banks should be redefined either as commercial banks or as offering specific services with clearer guidelines.²⁶ In order to allow a steady recovery, banking recapitalisation has an ongoing timeframe until 2009.²⁷ Access to long-term credits has been very limited since the economic crisis, and current BCRA efforts are concentrating on addressing this issue.

Starting in September 2004, the central bank has implemented a compulsory *Transparency Information System* through which financial entities have to publicly disclose information about their products and services. Transactional costs for current accounts, credit cards issuing, legal specifications to open bank accounts, rates and lending requirements are among the issues that need to be publicly disclosed. The rationale behind this system is not only bringing clarity to a previously obscure and complex system, but also providing comparative data and preventing customers from being misinformed about banking charges.²⁸ About 350 variables are publicly disclosed on a monthly basis through the central bank website. In addition, the BCRA is empowered to apply sanctions in case of omission or defective information. This system has increased competence and reduced costs for banking transactions. All four different banking associations have welcomed the central bank initiative, and have committed to work on a *Best Practice Code* in order to establish clear regulatory procedures for financial institutions.²⁹

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●●● Full compliance

Release of central bank data

Argentina subscribes to the IMF Special Data Dissemination Standard (SDDS), and meets its standards for the release of a range of monetary and fiscal information. Data on the analytical accounts of the central bank are compiled and published under the terms and conditions of the central bank's charter. The BCRA website discloses timely information on its international reserves, liquidity facilities, monetary base, cash deposits in financial institutions, financial institutions's loans to the private sector, and reference exchange rate.

The central bank balance sheet

Under the terms of its charter, the BCRA is required to publish annual balance sheets and income statements. In addition, it also publishes a weekly summary statement of its assets and liabilities, with a one-week delay. These data are released simultaneously to all interested parties through a *Summary Statement of Assets and Liabilities* (*Estado Resumido de Activos y Pasivos*) and are available online both in Spanish and in English.

Information on emergency financial support, international reserves and liquidity is regularly provided by the central bank, and analysed in detail in its annual balance sheets. Among other information, the central bank's *Annual Report* includes information on loans made to the financial system, contributions to international agencies made on behalf of the national government, temporary advance funds to the national government, and funds transferred to the national government for placements by the IMF. It also has detailed information on the monetary base, current accounts in foreign currencies, and government securities.

The BCRA accounting records are prepared in accordance with generally accepted standards, following the same general principles that are established by the Superintendence of Financial Institutions and Exchange Bureaus for all financial institutions. The financial statements are comparatively presented with those of the previous fiscal year. Basic financial statements are stated in Argentine pesos.

Lender of last resort

Following 2003 amendments to the central bank's charter, the BCRA has re-established its powers of lender of last resort. The central bank can now finance the government and banking sector, although there are some restrictions and reporting requirements for both roles. In the past year, lender of last resort operations were exercised within the limits established by its charter.

Public information services

The BCRA's website provides online access to information on diverse matters including the regulatory framework for the financial system; the central bank's *Annual Reports*; descriptions of its operating framework; targets and data on monetary policy, including a daily and monthly *Monetary Report*; text of speeches of past and present officials; seminars and conferences organised by the central bank; financial statements; and an index of available publications.

Publication of the *Annual Report* is a legal requirement, and the report must be submitted to parliament for consideration.

In the past year, the central bank has consolidated the disclosure of information publicly available on its website, with most of the information available both in Spanish and in English. The user-friendliness of the BCRA website and data reliability are key characteristics of the central bank communications strategy. The website has a 'Financial Panel', allowing timely access to central bank information, including BCRA reserves; monetary base; monetary circulation; current accounts deposits at the central bank; and overdrafts and rediscounts. The central bank's website includes an advance schedule reporting the dates where the different publications will be available.

The BCRA's monthly and daily reports contain information on international reserves; the monetary base; foreign currency deposits of financial entities; temporary advances to the government; financial indicators; and interests rates. Information on loans granted to the non-financial sector, public and private sector deposits and foreign lines of credit is also publicly available through the *Daily Monitoring Report*.³⁰ Information on banks is provided through the monthly *Financial Institutions Report*. Exchange rates variations are recorded in the monthly *Foreign Exchange Balance Report*. The *Financial Stability Bulletin* examines the functioning of the financial system, including a medium-term outlook and an overall assessment of developments in the conditions of financial stability. This publication -- available twice a year -- analyse net exposure to risks from financial activity itself, the business outlook and the development of the system's net worth.

The BCRA conducts a *Market Expectations Survey* (REM). The REM is based on the main short and medium-term macroeconomic forecasts prepared by independent analysts and consulting firms for the country's economy. The BCRA envisages the functioning of the REM as a necessary tool to listen to economic analysts and to keep people informed about market expectations. Participation in the REM is voluntary and open to all relevant organizations. Approximately 50 organizations currently participate, including universities, research institutions, private consulting firms and investment banks. Around 20 variables have been selected, aiming to reflect price evolution, the level of economic activity, employment trends, external sector forecasts, public finances, and key monetary aggregates. Its participants can update REM's forecasts on a weekly basis through an online system.

An advance release schedule for the REM is publicly available at the central bank website. Publication of REM surveys usually occurs on Thursdays every week, and a monthly ranking with the top five assessments is publicly available.³¹ Information regarding the REM methodology and the variables assessed is publicly available at the BCRA website.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

Accountability before a designated public authority

Pursuant to the central bank's charter and the Financial Institutions Law, the president of the BCRA must submit a report to Congress at least once a year. Each report describes the evolution of the economy and the financial system, as well as the main activities performed by the central bank during the period reported. Two reports are usually prepared, one for the first semester and another for the entire calendar year. Annual reports are publicly available on the BCRA's website, but several months after their submission.

The central bank also submits to Congress -- on a quarterly basis -- information on inflation expectations and a *Monetary Policy Progress Report*. On at least one occasion during the parliamentary term, the president of the BCRA is obliged to attend public sessions of the Budget and Treasury Committees of both chambers. In addition, these committees may ask the president to attend at any time, in order to brief them on monetary policy implementation, and exchange and financial policies.³²

Financial statement

Audited financial statement

The BCRA's financial statements, detailing its revenues and expenses, are published as part of the annual balance sheet. As published on the central bank's website, these sheets meet the auditing requirements set out in the central bank's charter. Recent balance sheets have been published with a special section to explain the impact of changes in the regulatory framework resulting from the 2001-02 economic crisis.

External and internal audit

Financial statements produced by the central bank are audited by a trustee appointed by the country's president in consultation with the Senate. Moreover, the central bank's charter requires financial statements to be externally audited. In 2004, the firm Pistrelli-Henry Martin & Associates acted as the independent external auditor. Both the internal and the external audit reports are publicly available online.

In addition, following the September 2003 amendment to the central bank charter, external audit of the central bank is also carried out by the National Audit Office (AGN), a technical advisory body of Congress with functional autonomy.³³ Annual audits conducted by the AGN are publicly available.

Conduct of officials

The BCRA has an internal code of conduct that establishes the rights and obligations of its staff. This code is distributed to employees but is not publicly available. In addition, the central bank's charter sets out regulations for members of the Board of Directors in order to prevent conflicts of interest.³⁴ Officials at managerial level or above must report yearly to the Anti-Corruption Office about their income and expenses.

According to BCRA officials, the lack of legal protection has been adversely affecting the legitimate performance of duties by central bank directors. This has always been a politically sensitive issue, as protection is generally perceived as impunity. Under the terms of the modified Financial Institutions Law, central bank officials now have a certain degree of legal protection, even though their decisions can still be challenged in court when they are taken with evident arbitrariness or deemed unreasonable.³⁵ The modified provision does not grant complete legal immunity, but represents an advance that facilitates decision-making.³⁶

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Argentina between 28 November and 2 December 2005:

Central Bank of Argentina

29 November 2005

George McCandless	Deputy Manager	Economic and Financial Research Department
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Ministry of Economy (MEcon)

2 December 2005

Mario Saccone	Analyst	National Budget Office
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ADDITIONAL INTERVIEWS

28 November 2005

Daniel Oks	Senior Economist	World Bank Regional Delegation
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29 November 2005

Ernesto Ramirez Rigo	Resident Representative	International Monetary Fund
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Alcadio Oña	Journalist	<i>Clarín</i> Newspaper
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30 November 2005

David Prodger	Head of Trade & Investment	British Embassy in Buenos Aires
Andres Borenstein	Economic Officer	British Embassy in Buenos Aires

Daniela Dborkin	Fiscal Policy Department	Centre for the Implementation of Public Policies Promoting Equity and Growth
Federico Marongiu	Fiscal Policy Department	Centre for the Implementation of Public Policies Promoting Equity and Growth

2 December 2005

Nestor Lavergne	Analyst	National Statistics Institute (INDEC)
Paula Gosis	Research Fellow	Latin American Faculty of Social Sciences (FLACSO)

NOTES

¹ Central Bank Charter, Chapter I, available at: www.bcra.gov.ar

² Central Bank Charter, Article 30, modified by Law 25.780.

³ Interviews in Argentina, 28 November - 2 December 2005.

⁴ It should be noted that Prat-Gay was only appointed to complete a six-year period started in 1998. Consequently, his mandate legally finished in September 2004. In this sense, the decision not to re-appoint him was not in violation of BCRA autonomy, with Prat-Gay's successor nominated under the established procedures. However, given Prat-Gay's competence in handling monetary policy in a particularly difficult period, BCRA changes appeared motivated by political rather than technical reasons. Prat-Gay had some public disputes with Kirchner over exchange rate policy, and a series of disagreements with the Ministry of Economy.

⁵ In the present scenario of fiscal surplus, the government can rely on various different sources of financing. However, in times of fiscal shortfalls or deficits, the central bank's autonomy and its policy towards financing the government becomes highly sensitive.

⁶ Due diligence procedures are in the process of being established for both Bapro and BN.

⁷ The assessment identified several areas to be strengthened to improve Bapro's performance: better risk-assessment and monitoring systems; more efficient loan collection mechanisms; and improvements in governance practices.

⁸ Economic recovery and the completion of the debt restructuring process during 2005 have encouraged a sharp rise in capital inflows, rendering it increasingly difficult to maintain a competitive exchange rate to sustain recovery.

⁹ Interviews in Argentina, 28 November - 2 December 2005.

¹⁰ Central Bank of Argentina website, available at: www.bcra.gov.ar

¹¹ From 1991 until 2002, Argentina's institutional arrangements curtailed the central bank's monetary policy role. However, following the 2001-2002 economic crisis, several changes in the central bank's charter have been introduced, granting the BCRA broader monetary policy powers.

¹² 'Argentina – Article IV Consultation Report', IMF Country Report No.05/236, July 2005, available at: www.imf.org

¹³ 'Política Monetaria y Crecimiento Económico', Central Bank's President speech at the opening of the Argentine Banking Association Seminar, May 2005, available at: www.aba-argentina.com/prensa/interes/2005/

¹⁴ The government's economic policy is based on high exchange rates in order to boost the country's exports and keep the economy competitive within an international framework. In line with this, a lower exchange rate would increase imports that in turn could affect national production.

¹⁵ Interviews in Argentina, 28 November - 2 December 2005.

¹⁶ 'IMF Executive Board Concludes Article IV Consultation with Argentina', IMF Public Information Notice 05/83, June 2005, available at: www.imf.org

¹⁷ Interviews in Argentina, 28 November - 2 December 2005.

¹⁸ Interviews in Argentina, 28 November - 2 December 2005.

¹⁹ Article 7 of the Central Bank Charter allows the reappointment of the president, vice-president and directors.

²⁰ The fact that all board members received Senate agreement for the legal period constitutes an improvement from past practices.

²¹ The process of disclosure and availability of information on monetary policy -- started by former BCRA President Alfonso Prat-Gay -- continues under the current authorities.

²² *Monthly Monetary Reports*, available at: www.bcra.gov.ar/polmon/pm020000_i.asp

²³ 'Argentina: Pragmatic deposits ruling dispels doubts', *Oxford Analytica Daily Brief*, October 28, 2004.

²⁴ Lawsuits presented by savers whose dollar deposits were forcibly converted to pesos at a rate of 1.40 to the dollar in 2002 allowed many to recover their deposits at the market exchange rate. Banks were forced to assume the losses arising from the difference between the official exchange rate of 1.40 and the market rate.

²⁵ 'Argentina – Article IV Consultation Report', IMF Country Report No.05/236, July 2005, available at: www.imf.org

²⁶ Interviews in Argentina, 28 November - 2 December 2005.

²⁷ The Financial System Restructuring Unit -- created in 2002 in order to determine which banks can be granted up to ten years to pay their debts to the BCRA arising from rediscounts or advances received during the 2001-02 crisis -- could never start operating owing to the lack of agreement between the central bank and the Ministry of Economy. Instead, informal talks on the strategy for restructuring the financial system have been preferred.

²⁸ Financial analysts have praised the availability of comprehensive and clear information through the *Transparency Information System* as an important tool from a consumer perspective.

²⁹ Interviews in Argentina, 28 November - 2 December 2005.

³⁰ *Daily Monitoring Reports*, available at: www.bcra.gov.ar/polmon/pm020100_i.asp

³¹ REM schedule, available at: www.bcra.gov.ar/pdfs/indicadores/cronograma.pdf

³² Central Bank Charter, Article 10.

³³ Central Bank Charter, Article 40, modified by Law 25.780.

³⁴ Central Bank Charter, Article 8.

³⁵ Financial Institutions Law, Article 35, as amended by Law 25.780 of September 2003.

³⁶ Some legal specialists believe that its ambiguity could enable future judicial prosecutions of central bank officials for the legitimate performance of duties.